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SIPDIS

STATE FOR EEB/OMA SNOW AND SAKAUE, TREASURY FOR WEISS,
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¶B. STATE 33629

Classified By: DCM Doug Silliman for reasons 1.4(b,d)

¶1. (C) Summary and comment. On April 14, Treasury Minister Mehmet Simsek told Ambassador Jeffrey that Turkey will support Kosovo's bid to join the IMF and World Bank (Reftel B). In addition, Simsek offered to meet in Washington during the IMF/WB spring meetings with selected countries to encourage their participation and support of Kosovo. On an IMF deal for Turkey, Simsek said most key points have been resolved, and the GOT has invited an IMF team to come to Turkey for final negotiations, likely in May. On April 13, Deputy Prime Minister Nazim Ekren, Finance Minister Kemal Unakitan, and Simsek held a press conference to announce a revision of macro targets and the EU pre-accession economic program. We were pleased to see more realistic GDP growth projections of a 3.6% contraction in 2009, followed by growth of 3.3% in 2010 and 4.5% in 2011. Other macro revisions offered by the economic team, while good sound bites, were vague and unsubstantiated. As we have reported in the past, the Ekren-led team is more technocratic than politically savvy. End summary.

¶2. (SBU) After he attends the IMF/WB spring meetings, Simsek plans to visit New York, Connecticut, and Massachusetts to meet with investors and rating agencies to promote Turkey. Simsek said the real sector has been the hardest hit and will take longest to bounce back after recovery begins. As we have reported, Simsek confirmed that the finance and credit sector is healthy. He said waning confidence and consumer expectations are difficult to manage, because pessimism is contagious. One of his key jobs is cheer-leading to manage negative perceptions, which may linger even though fundamentals are in good shape.

Will We Finally Have an IMF Deal?

¶3. (C) Simsek said he, Ekren, and the Prime Minister met with IMF leaders in March and told them Turkey is ready to make a deal. On the remaining issues, Simsek said they have reached a compromise on increasing professionalization of the Revenue Administration. Turkey is willing to do tax checks on an annual basis to look for consistency between personal revenue and expenditures on tax returns, and will undertake a 1% fiscal adjustment in 2009. Even though these cuts will be tough, Turkey is willing to bite the bullet with the acknowledgment that the economic shock is major, but temporary. The GOT plans to create a binding fiscal rule and reform payments to municipalities, but Simsek said the IMF should not play hardball. While Simsek did not give any details for a fiscal rule, some examples could be debt-to-GDP ratio targets or limits in the primary surplus. While Turkey is willing to undertake some austerity and is not trying to

spend its way out of the slump, Simsek said it should be supported in its appetite for growth. He added that Turkey's strong six-year economic track record should merit some confidence for the future. Simsek said Turkey wants to make a three-year deal with the IMF, which will run through the next election cycle. He said neither side has yet mentioned the amount of money for a stand-by deal.

Revision of Macro Targets

¶4. (C) On April 13, Turkey's economic team announced significant changes in future GDP estimates. DPM Ekren said GDP will contract 3.6% in 2009, followed by growth of 3.3% in 2010, and 4.5% in 2011. The current account deficit, which has declined because of the global crisis and falling oil prices, is expected to reach USD 11 billion in 2009, USD 18.6 billion in 2010, and USD 26.4 billion in 2011. The economic team forecasts unemployment will reach 13.5% at the end of 2009, which seems unlikely given a new record high of 15.5% reached in February 2009. There is no change in the Central Bank's inflation forecast, at 7.5% for 2009, but Ekren's team said inflation could drop to 6.9% by year's end. The team said creation of new off-budget spending will be prevented, although they did not state who would have responsibility. Such a change could require Parliamentary action. Ekren said the Treasury Ministry will decrease borrowing limits of municipalities, and municipal debts will be reported quarterly to increase transparency. He added that the GOT will spend 12.2 billion Euros on the Southeastern Anatolian Plan (GAP) between 2008 and 2012. Ekren said that debts owed to the Federal Government by energy state economic enterprises (SEE) will be collected, although he was again

vague on specifics.

¶5. (C) Comment: We appreciate Minister Simsek's offer of help on Kosovo's WB/IMF application. We worked with EEB/IFD/OMA to create a list of countries from which he could seek support, and he has agreed to conduct those meetings April 24-26 in Washington. While he didn't guarantee a done deal with the IMF, Simsek was generally positive.

¶6. (C) We like the more realistic GDP estimate. Contraction of 3.9% could be in the ballpark for 2009 results. We have heard estimates of contraction ranging from one to nine percent, and are glad the GOT finally stepped down from its unfounded 4.0% positive growth estimate. However, their unemployment forecast seems overly optimistic. We also have mixed feelings about the lack of detail on the fiscal policy reforms the economic team announced. They did not explain how they proposed to limit off-budget spending or municipal borrowing power. Their statement about clearing up the debts of energy SEEs seemed politically naive, given persistent payment problems between the entities and the GOT. A draft bill before the Council of Ministers calls for settling these agencies' debts to each other by forgiving and writing off the debt, which would not solve the long-term, structural non-payment problems. Similarly, increasing tax and debt collection sounds good, but in practice it will be difficult and politically unpopular. End comment.

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Jeffrey